

ALJ/DH7/jt2

PROPOSED DECISION

Agenda ID #17360 (Rev. 2)

Ratesetting

5/16/2019 Item #10

Decision **PROPOSED DECISION OF ALJ HOUCK** (Mailed 4/10/2019)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service by \$11,020,932 or 15.25% in 2018, by \$6,148,017 or 7.38% in 2019, and by \$5,543,562 or 6.20% in 2020.

Application 17-01-001

DECISION ADOPTING SETTLEMENT BETWEEN SUBURBAN WATER SYSTEMS AND OFFICE OF RATEPAYER ADVOCATES AND DETERMINING UNSETTLED ISSUES

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DECISION ADOPTING SETTLEMENT BETWEEN SUBURBAN WATER SYSTEMS AND OFFICE OF RATEPAYER ADVOCATES AND DETERMINING UNSETTLED ISSUES**Summary**

This decision adopts a proposed settlement between Suburban Water Systems and the Office of Ratepayer Advocates that addresses all but three issues in the proceeding. The decision also resolves the three outstanding issues litigated in the proceeding: administrative and general expenses; federal income tax rate; and company funded information technology projects for corporate rate base. Through the settlement and the litigated issues, we have determined the revenue requirement for a test year 2018 and two years of subsequent adjustments. The decision results in an overall rate increase of \$4,925,226 or 6.48% for 2018; \$2,199,127 or 2.72% for 2019; \$4,117,079 or 4.95% for 2020. This proceeding is closed.

1. Background and Procedural History

Suburban Water Systems (Suburban) is a class A investor owned water utility and therefore subject to the jurisdiction of the Commission. Consistent with the California Public Utilities Commission's (the Commission) Rate Case Plan in Decision (D.) 07-05-062, on January 3, 2017, Suburban applied for authority to increase rates charged for water service by \$11,020,932 or 15.25% in 2018, by \$6,148,017 or 7.38% in 2019, and by \$5,543,562 or 6.20% in 2020. On February 8, 2017, the Public Advocates Office of the Commission (Public

Advocates)¹ filed a protest to the application and on February 21, 2017, Suburban filed a reply to the protest.

Following a pre-hearing conference held by the assigned Administrative Law Judges (ALJs) on March 9, 2017, the assigned Commissioner and ALJs jointly issued a Scoping Memo and Ruling (Scoping Memo) April 14, 2017, defining the scope and schedule of the proceeding.

Public Advocates served testimony on May 1, 2017, and Suburban served its rebuttal testimony on May 16, 2017. Public Participation Hearings (PPH) were held in La Mirada on June 26, 2017 and in West Covina on June 27, 2017.

Evidentiary hearings were held in San Francisco on July 6 and July 7, 2017. On August 2, 2017 the ALJs issued a ruling requiring the parties to provide additional information on the issues identified by customers during the June PPHs and on related matters as set forth in the ruling.

The Parties engaged in informal settlement discussions and mediation under the Commission's alternative dispute resolution program in Los Angeles from June 5 through June 13, 2017. A formal settlement conference was properly noticed on August 7, 2017 pursuant to Rule 12.1(b) and held on August 14, 2017, which resulted in resolution of all but three disputed issues. Parties filed a Joint Motion for the Adoption of a Settlement Agreement on August 15, 2017.

The three disputed issues not resolved through the proposed settlement are:

¹ The Office of Rate Payer Advocates (ORA) has subsequently changed its name to the Public Advocates of the Public Utilities Commission (Public Advocates). Most of the documents filed in the proceeding were done so prior to the legislative name change. Therefore, where documents have been filed under the ORA the document name and exhibit numbers will remain ORA. ORA and Public Advocates are the same entity for purposes of reference in this decision.

(i) Suburban's request for a parent company rate base consisting of an allocated share of approximately \$5.4 million in proposed information technology capital projects; (ii) the forecast of regulatory expenses for Suburban's next general rate case (GRC) proceeding, including costs for witness training, postage and legal expenses; and (iii) the federal income tax rate that should be adopted in this proceeding.²

Whether the Commission should designate certain workpapers and exhibits as confidential is also a contested issue discussed further below.

On September 21, 2017, Suburban filed a Supplement to its Application. On October 10, 2017, the Parties filed a Joint Statement Regarding the Supplement to the Application.

1.1. Miscellaneous Filings

On February 22, 2017, ORA filed a Motion for ALJ Ruling on Discovery and Confidential Matters, to which Suburban replied on March 6, 2017.

A Joint Case Management Statement was filed on February 23, 2017. Status Conferences were held on March 27, 2017 and September 26, 2017, with Joint Status Reports being filed on June 28, 2017 and July 25, 2017. A Joint Statement on Outstanding Issues and Confidential Designations was filed on September 24, 2017, with a revised Statement filed on September 21, 2017. A Joint Motion for Notice of Facts was filed on January 16, 2018.

On April 20, 2017, an Ex Parte Notice was filed by ORA regarding communications with ALJ Houck on April 17, 2017.

² See *Revised Joint Statement of Suburban Water Systems and the Office of Ratepayer Advocates on Outstanding issues and Confidential Designations* (Revised Joint Statement) at page 2 filed on September 21, 2017.

Opening Briefs were filed by Suburban and Public Advocates on September 15, 2017, and Reply Briefs were filed by both Parties on October 6, 2017.

On September 22, 2017, Suburban filed a motion requesting Interim Rate Relief, which was granted by ALJs Ruling on December 19, 2017.

Both Suburban and Public Advocates filed motions for confidential treatment of various documents. This issue is discussed below in Section 6 – Confidential Treatment.

Suburban submitted a Supplement to its Application on September 21, 2017 in accordance with direction provided by the assigned ALJs. ORA filed a statement concerning the Supplement to the Application on October 10, 2017.

An amended scoping memo was issued on April 6, 2018 extending the statutory deadline for the proceeding to December 31, 2018. A second amended scoping memo was issued on November 27, 2018 extending the statutory deadline for the proceeding to June 30, 2019 and requiring additional information to be submitted concerning the impacts of the Tax Cuts and Jobs Act (TCJA).

On January 3, 2019, Suburban submitted a Motion for Transitional Rate Relief and Modification of Procedural Schedule (Suburban's January 3rd Motion). ALJ Houck issued an email ruling on January 8, 2019 partially granting Suburban's request to modify the procedural schedule in the proceeding. On January 22, 2019 Public Advocates filed a Response to Suburban's January 3rd Motion, and Suburban filed a reply to Pubic Advocates Response on January 25, 2019.

Parties served Supplemental Testimony on January 25, 2019 with Reply Testimony served on February 1, 2019. On March 13, 2019 the assigned ALJs

issued a Ruling identifying and Receiving Party Exhibits into the Record. The proceeding was submitted on March 13, 2019.

2. Overview of Settlement³

Suburban and ORA (the Parties) agreed to settle the following issues:

Water Consumption and Operating Revenues

1. Parties compromised on Residential Water Sales Per Customer, settling on figures between Suburban's and ORA's estimates.
2. Suburban accepted ORA's forecast for both Business Water Sales Per Customer and Recycled Water Use Per Customer, Whittier/La Mirada.

Escalation

Suburban accepted ORA's proposed escalation factor as of April 2017.

Operations and Maintenance Expenses

1. Suburban and ORA agreed on Purchased Water Expenses based on compromised levels of projected water demand. Cooperating Respondent reimbursements have been recalculated to reflect the compromised level of projected water demand.
2. Suburban and ORA agreed on Purchased Power expenses based on a compromised level of projected water demand.
3. Suburban accepted ORA's estimate of Maintenance of Pumping Equipment – Electric Motor expense, as reasonable.
4. Suburban and ORA agreed to split the difference between their initial estimates for Water Treatment Expense – Laboratory Services.
5. Parties agreed to Suburban's proposal for Storage Facilities Expenses – Gardening Services, with a reduction of \$15,330 in the reactive landscaping budget.

³ The Parties Settlement is attached to this decision as Appendix A.

6. Suburban accepted ORA's proposal for Customer Account Expenses – Customer Service Other.
7. Suburban accepted ORA's proposal for the Uncollectable Rate, as reasonable.
8. With regards to Water Conservation Expense, the Parties agree to a total conservation budget of \$350,000 per year for a total of \$1,050,000 for the period 2018 – 2020. Suburban will track all expenses associated with the conservation program, including rebates received for the three years of this GRC cycle (2018 – 2020) in a Conservation Expenses One-Way Balancing Account (CEOWBA) with an effective date of January 1, 2018. The purpose of the CEOWBA is to track over the 3-year rate case cycle (2018 – 2020) the actual conservation expenses plus rebates related spending (not to exceed rebates) versus authorized conservation expenditures up to the limit of \$1,050,000 (plus related rebates) so that any unspent funds collected through rates can be returned to ratepayers. The Parties also agreed to a preliminary statement on the CEOWBA. With regards to the Landscape Survey and Retrofit Pilot Program, Suburban has agreed that the annual budget of \$250,000 for this program should not be spent on any other program. Suburban also agreed to provide a program evaluation of the residential landscape survey pilot program in its next GRC filing, including detailed information on water savings, program cost, and customer participation rates. The evaluation will include a cost-benefit analysis of the pilot program.

Administrative and General Expenses

1. ORA accepted Suburban's proposal for Office Supplies and Other Expenses – Safety Supplies.
2. For purposes of settlement, the Parties agreed that Suburban may include in 2018 rates, 50% of the proposed Credit/Debit Card Program (CCP) cost of \$239,064, less the Credit/Debit Card

Program Memorandum Account (CCPMA)⁴ recorded over-collection of \$39,908 in 2018. The Parties also agreed that the CCPMA will be closed and the CCP will become permanent, effective January 1, 2018. Suburban will file a Tier 1 advice letter to update Rule 9 Section B.2.

3. The Parties agreed to use Suburban's proposed amount for Injuries and Damages – Workers Compensation Claim expense and Insurance, which is the allocated amount from the parent company that ORA found to be reasonable.
4. ORA agreed to Suburban's proposed amount for Injuries and Damages – Premises Pollution Insurance expense, which is the allocated amount from the parent company that ORA found to be reasonable.
5. ORA agreed to Suburban's proposed General Liability Insurance expense, which is the allocated amount from the parent company that ORA found to be reasonable.
6. With regards to Employee Pension and Benefits – Training and Seminars expense, Suburban withdrew its 2017 Engineering Department training cost of \$19,335, and ORA accepted 2017 training costs for the Mechanical Department of \$34,260 as reasonable and training costs of \$1,000 for the Human Resources Department as reasonable.
7. Suburban accepted ORA's proposal Employee Pension and Benefits – Employee Welfare expense.
8. Suburban accepted ORA's proposal for Employee Pension and Benefits – Employee Education expense.
9. The differences between the Parties' initial estimates of Employee Pension and Benefits – Medical and Dental Insurance were due to differences in payroll and escalation rate for medical insurance. For purposes of settlement, ORA agreed to adopt Suburban's

⁴ In D.14-02-038, the Commission authorized a 10-month pilot program to purchase an information technology support program and to implement a CCP for customer payments.

- proposed escalation rate of 4% beyond test year 2018. The settled amount for medical and dental insurance reflects the payroll adopted by the Parties as well as the settled medical insurance escalation rate.
10. The Parties agreed that Suburban should recover 40% of requested Outside Services Employed – Legal Fees and will track legal invoices in the next GRC.
 11. Suburban accepted ORA’s proposal for Outside Services Employed – Other Professional Services.
 12. With regards to Professional Dues – Company, Suburban accepted ORA’s proposal to exclude the cost of membership in the San Gabriel Valley Economic Partnership and the Glendora Chamber of Commerce. Suburban also accepted a reduction in the recorded amount of NAWC dues. For purposes of settlement, ORA accepted Suburban’s proposed CWA dues expense, which reflects 38% of the CWA dues for ratemaking purposes as specified in the June 24, 1994 Memorandum of Understanding between CWA and ORA.

Payroll

1. Forecasting Methodology and Data – The Parties agreed to escalate recorded 2015 regular payroll costs with labor escalation factors; and agreed that Suburban will provide 2019 payroll data by February 28, 2020 in its next GRC.
2. The parties agreed to add two Utility Worker I positions, one Mechanic I position, and one Human Resources Business Partner (which Suburban has already filled).
3. The Parties agreed to reduce Suburban’s overtime forecast by \$50,200 and to withdraw \$84,188 overtime related to cost of repairing breaks.
4. The Parties compromised on \$381,480 for Incentive Compensation. This figure is between Suburban’s proposal of \$429,208 and ORA’s proposal of \$284,584.

Income Taxes and Taxes Other than Income

1. With regards to the Ad Valorem Tax Percentage, the parties agreed to split the difference between Suburban's proposal of 0.91% and ORA's 0.86%, at 0.885%.
2. With regards to the 2018 California Corporate Franchise Tax (CCFT) Expense Deduction from Federal Income Tax (FIT), Suburban accepted a CCFT expense deduction from FIT based on Suburban's advice letter 318-W filing for Attrition Year 2017 adopted increase, as recommended by ORA.
3. With regards to the Internal Revenue Service (IRS) Section 199 - Domestic Production Activities Deduction (DPAD),⁵ Suburban did not include this deduction, while ORA proposed that the DPAD be calculated based on 9% of Suburban's Qualified Production Activities Income, consistent with Section 199 of the Internal Revenue Code and past Commission practice. For purposes of settlement, Suburban accepted ORA's recommendation to impute ORA's DPAD methodology in calculating gross federal taxable income amounts for test year 2018, and attrition year 2019.

Company Funded Capital Expenditures

1. For settlement purposes, the Parties agreed to a three-year (2017-2019) capital budget of \$62,029,145. Specifically, the Parties agreed to an overall 30% reduction in the revised capital budget for 2018 and an overall 25% reduction in the revised capital budget for 2019 as reasonable.
2. The Parties agreed to Suburban's proposed replacement, starting in 2018, of existing meters with advanced meters on a schedule that would change out all meters in 15 years.

⁵ One component of calculating the gross federal taxable income amount is the Domestic Production Activities Deduction ("DPAD"). The American Jobs Creation Act of 2004 allows a reduction in the gross federal taxable income amount to encourage domestic production and production-related activities.

3. Based on its agreement to settle for fewer new positions, Suburban agreed to fewer vehicle additions as well; and also agreed to comply with the California Department of General Services (DGS) guidelines (proposed by ORA) regarding vehicle replacement.
4. ORA accepted Suburban's estimates of Hydrant costs.
5. ORA accepted Suburban's estimates of Pump Replacement costs.
6. ORA accepted Suburban's estimates of Plat Improvements as reasonable.
7. The Parties agreed to compromise on the pipeline replacement program, equivalents to a 0.46% replacement rate per year for the test years 2018 and 2019.

Indirect Cost Allocation

1. There are two sets of costs to be allocated to Suburban and its affiliates in this proceeding: 1) The allocation of indirect costs of Suburban's parent company, SouthWest Water Company (SouthWest), to Suburban and its affiliates, including an affiliate involved in non-regulated service contract operations; and 2) The allocation of the costs of the Utility Group business unit, which provides management, regulatory and communications services to Suburban and its affiliates.
2. The Parties agreed to set the salary and incentive compensation for four executives based on test year 2015,⁶ escalated to test year 2018 using the April 2017 escalation factor as reasonable. The calculation is partly based on capitalized internal labor associated with company funded Information Technology (IT0) projects, an issue that is being litigated, and therefore will be determined after that issue has been resolved. The ultimate disallowance of requested company funded IT projects will result in reverting the associated capitalized labor cost back to the regular Administrative and General payroll expenses that is part of

⁶ See D.14-12-038.

allocable parent company expense. (See Section 5.3 of this decision)

3. The Parties agreed to exclude one new position, Regulatory Affairs Manager – Texas and associated expenses, and to adjust the payroll cost associated with the position of Vice President Regulatory Affairs based on the average of 2015 recorded escalated to 2018 and estimated 2016 to 2018.
4. The Parties will apply the same three-factor allocation method for both Parent Company Costs and Utility Group expenses based on operating expenses, payroll, and gross plant.⁷ The Parties agreed to employ 65% of ORA's estimated gross plant "payroll multiplier" for the relevant SouthWest affiliate in calculating the gross plant allocation factor. The total Utility Group expenses allocated to Suburban using this method are \$471,089 for test year 2018. Parent Company cost allocations will be determined following the Commission's ruling on the IT capital costs issue that is being litigated, which factors into the final calculation (See Section 5.3 of this decision).

Procedure

- 1 Suburban and ORA agreed that in the next GRC: 1) the Parties will hold weekly calls during discovery with Suburban and ORA attorneys and staff; 2) A ten-business-day data request response time will be adopted, but the Parties will attempt to respond within seven calendar days; 3) the Parties will respect any priority assigned to data requests by the requesting party; and 4) the Parties will also expedite any joint motions required to resolve issues during discovery.
- 2 Suburban agreed to present an estimate of the increase in costs for accelerated external audits for Suburban and its affiliates in the next GRC filing. If audits are accelerated, Suburban ratepayers will pay: 1) the added audit cost at 100% for

⁷ Since Suburban does not have gross plant information for the nine companies that are served under the contracts, ORA estimated the associated gross plant value to be \$99,398,936 using a "payroll multiplier" derived from the SouthWest affiliate that provides the service.

- Suburban's audit; and 2) based on Parent Company allocations of the added cost of Suburban affiliates' audits.
- 3 The Parties agreed that Suburban will file Tier 1 advice letters for Suburban's 2019 and 2020 attrition year rate changes, regardless of whether Suburban passes the Commission's pro forma earnings tests for those years, and that Suburban will not reduce rates in any service area solely because the pro forma earnings test result show that Suburban was over-earning.
 - 4 ORA requested that the Commission consider imposing penalties on Suburban related to discovery disputes and compliance with past decisions. For purposes of settlement, ORA agrees that no fines or penalties should be imposed on Suburban.

Existing Memorandum and Balancing Accounts

1. Suburban accepted ORA's proposal to maintain the existing Employee Healthcare Balancing Account Under Collection recovery rate of 85%.

Special Requests

1. Of the one-time customer surcharges requested by Suburban for eleven miscellaneous offsets, ORA opposed only one, a surcredit for the CCPMA program. Suburban accepted ORA's proposal to exclude the CCPMA offset from the calculation and to apply the remaining over-collection balance of \$39,908 as a reduction to expense account 792 SC 332 - Computer Cost Miscellaneous in test year 2018.
2. Suburban accepted ORA's proposal to increase the Low Income Ratepayers Assistance (LIRA) surcharge and surcredit by the same percentage as the increase in rates adopted by the Commission in this proceeding. Based on the increase in rates shown on Table 1⁸, the percentage increase of the LIRA surcharge and surcredit is 6.48%.

⁸ Table 1 is attached to this decision as Appendix B.

3. ORA agreed that Suburban should refund to residential customers over a one-year period the Water Revenue Adjustment (WRAM) over-collection balance after reduction by projected future WRAM (2017 - 2020) accruals in the amount of \$1,542,670. ORA also agreed to a resulting surcredit of \$0.080/ccf⁹ to San Jose Hills Service Area residential customer bills and a resulting surcredit of \$0.141/ccf to Whittier/La Mirada Service Area residential customer bills.

3. Settlement Standard of Review

As the applicant in the underlying general rate case, Suburban bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

The requirements for settlements are set forth in Article 12, Rules 12.1 through 12.7 of the Commission's Rules of Practice and Procedure (Rule). Rule 12.1(a) requires parties to submit a settlement by written motion within 30 days after the last day of hearing. Because a settlement was reached prior to the commencement of a hearing, the time limit does not apply here. Consistent with Rule 12.1(b), the Parties noticed and convened a settlement conference on August 14, 2017, which resulted in resolution of all but three disputed issues.

The Commission must decide whether to approve the Settlement. The relevant standard is provided in Rule 12.1(d), which states that the Commission will not approve a settlement unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. In general, the Commission does not consider if a settlement reaches the optimal outcome on every issue. Rather, the Commission determines if the settlement as a whole is reasonable. A settlement should also provide sufficient information to enable the

⁹ Ccf means 100 cubic feet.

Commission to implement and enforce the terms of the settlement. In the next section, we discuss the Settlement at question and make a determination as to whether it meets this standard.

4. Discussion: Is the Settlement Reasonable in Light of the Whole Record, Consistent with the Law, and in the Public Interest.

The Commission must determine if the Settlement in this proceeding meets the three criteria required for a settlement. As discussed below, we find that the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

First, is the Settlement reasonable in light of the whole record? We find that the Settlement is reasonable in light of the entire record. We base this on an analysis of each party's case noting that each party mutually compromised resulting in a Settlement that lessens the burden on ratepayers, in comparison with Suburban's original requested rate increase, but allows Suburban to continue to provide safe and clean water service in an efficient and cost-effective manner. The record in this proceeding consists of all filed documents, the served testimony, the proposed settlement, and the motion for its adoption. The scoping memo (and amended scoping memos) laid out the issues to be determined in this proceeding. The Settlement resolves all but three of these issues.

The Parties fully considered the facts relevant to this case and reached reasonable compromises on the issues to achieve the Settlement. The Settlement will keep the rate burden as low as is reasonable while allowing Suburban to recover a reasonable amount of increased costs. The Settlement is mutually beneficial to both Suburban and ratepayers and, thus, is reasonable.

We next look at whether the Settlement is consistent with the law. We find, with one exception identified in Section 4.1 below, that the Settlement is consistent with the law and Commission decisions. As discussed above, the Parties complied with the provisions of Rule 12 regarding Settlements. Furthermore, we find that there are no terms within the Settlement that would bind the Commission in the future or violate existing law. The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. Furthermore, the Parties entered into the Settlement voluntarily and upon review and advice by their respective legal counsels and technical staff.

Lastly, we must determine whether the Settlement is in the public interest. We find that the Settlement is in the public interest for multiple reasons. The Parties represent both sides of this case: the utility and the ratepayers and the Settlement balances those interests at stake. Settlements serve the public interest by resolving competing concerns in a collaborative and cooperative manner. Furthermore, the Settlement avoids the costs of evidentiary hearings and resources of the Commission, thus saving public funds. Finally, the settlement ensures that customers have continued access to an affordable, safe and reliable water supply system.

Approval of the Settlement will provide efficient resolution of the majority of the contested issues, thus saving unnecessary litigation expenses and Commission resources. The Commission has acknowledged a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.

Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise

impose a precedent in this or any future proceeding. Suburban should not presume that the Commission would deem the outcome adopted in this decision to automatically be reasonable in any subsequent application. Hence, future applications filed by Suburban should fully justify every request and ratemaking proposal, as required by statute and Commission rule, and without reference to, or reliance on, the adoption of the Settlement.

4.1. Modification to the Settlement

As part of the Settlement the Parties agreed that Suburban would calculate Domestic Production Activities Deduction (DPAD) based on 9% of Suburban's Qualified Production Activities Income, consistent with Section 199 of the Internal Revenue Code and past Commission practice.¹⁰ Since the date of the Settlement, the TCJA was enacted. The TCJA includes provisions that impact Suburban's federal tax obligations including elimination of the DPAD. Accordingly, the above provision of the Settlement is invalid, and the Settlement is modified in this sole manner. Section C beginning on page 20 of the Settlement and ending on page 21 is hereby stricken and unenforceable by operation of law.

5. Litigated Issues

There are three contested substantive issues that were not resolved in the adopted Settlement Agreement: (i) the forecast of regulatory expenses for Suburban's next general rate case (GRC) proceeding, including costs for witness training, postage and legal expenses; (ii) the federal income tax rate that should

¹⁰ Settlement Agreement, at 20-21 (included as Appendix A to the PD).

be adopted in this proceeding;¹¹ and (iii) Suburban's request for a parent company rate base consisting of an allocated share of approximately \$5.4 million in proposed information technology capital projects.

5.1. Administrative and General Expenses

The parties disagree as to the level of funding for Suburban's regulatory, administrative and general, expenses. The areas of disagreement concern Suburban's proposed budget for legal costs, witness training, and postage to mail customer notices.

Suburban proposes that the Commission authorize its proposed regulatory budget which includes the following items: i) \$697,500 for legal costs (with an hourly rate of \$775 for 815 hours); ii) \$16,241 in witness training, and iii) \$71,882 in postage costs for customer notices concerning the 2020 GRC.

The Public Advocates argues that the Commission order the following: i) disallow \$16,241 for witness training; ii) disallow \$71,882 for postage cost for customer notices; and iii) reduce the hourly rate for legal counsel from Suburban's recommended \$775 per hour to \$373 per hour; and iv) limit the total attorney hours to 545 hours.

5.1.1. Witness Training Expenses

As to the first issue, Suburban's proposed budget for witness prep. We agree with Public Advocates that Suburban has not made a sufficient case to be granted \$16,241 in witness prep expenses. The invoice that Suburban relied

¹¹ Although parties did not resolve this issue as part of their Settlement Agreement, adoption of the TCJA, which went into effect on January 1, 2018, effectively resolved the FIT rate to be applied for this GRC

upon for its requested amount of \$16,241¹², by Suburban's own admission, did not "actually reflect witness training expenses and was mistakenly included in its data request response to ORA on this topic."¹³

Suburban, in acknowledging there is no evidentiary support for the amount subsequently argued that at a minimum, the Commission should approve an amount of \$6,990 for Suburban witness prep. Suburban asserts this amount represents the invoice from D'Andrea (\$6,240.37) escalated to 2020 dollars at the Commission's standard escalation rate.¹⁴ Public Advocates agrees that using the 2011 invoice is reasonable to estimate witness training and prep costs and recommends escalation to 2018 dollars, the test year for this GRC.¹⁵ We agree with Public Advocates that \$6,876 is the proper amount to be authorized for witness training as supported by the proceeding record.

5.1.2. Postage

Suburban requested that the Commission authorize \$71,882 for mailing required notices in connection with the 2020 GRC. Suburban presented evidence in the form of calculation showing the specific number of customers for 2017 (76,470) times the cost of postage (47 cents) times 2 (one application notice and one PPH notice). Public Advocates oppose authorization for any amount of postage to mail the anticipated notices.

¹² Exhibit SWS-35-C (Suburban Workpapers Vol. II-A) at 249.

¹³ See Suburban Opening Brief at 4.

¹⁴ See Suburban Opening Brief at 6.

¹⁵ See Reply Brief of ORA at 8 citing to Exhibit SWS-59-CW (Suburban's response to ORA Data Request JA-04)

Public Advocates argues that the notices can be timed for mailing as bill inserts at no additional cost. However, there are many factors outside of Suburban's control when providing notice.¹⁶ Suburban is required to meet Commission rules for proper notice, the scheduling of the hearings may not coincide with the timing for mailing such notice with bill inserts. The Public Advisors Office is required to approval all notices, and more than one PPH may be scheduled. For example, to PPHs were held in this proceeding; one in each of Suburban's service areas. In addition, the notice may need to be provided in multiple languages and could as Suburban points out add to the weight of the mailing if mailed with bills which would increase postage costs. Notice is a fundamental cornerstone of due process and in order to ensure customers receive proper notice and that our proceedings are transparent we believe these costs are prudent and reasonable. We find that Suburban has provided sufficient evidence for authorization of additional postage costs in the amount of \$71,882.

5.1.3. Legal Fees

Suburban is requesting authorization for legal fees in the amount of \$697,500 as part of this GRC. These costs include 815 attorney hours at a rate of \$775 per hour.¹⁷ These rates are based on a weighted average of 2020 rates for firm partners (\$1,065.41/hr), manager (\$830.47/hr), and associates (\$540.90).¹⁸

¹⁶ PUC § 309.5; Exhibit SWS-62-CX (Application Notice; Exhibit SWS-63-CX (PPH Notice); Exhibit ORA-02 (ORA Report on the Results of Operations of Suburban Water Systems) at 54 lines 12-18; Exhibit SWS-24 (Revised Rebuttal Testimony of Robert L. Kelly) at 10.

¹⁷ Suburban's Opening Brief at 10; also see Exhibit SWS-36 (Workpapers Vol I-II), at 248-249; Exhibit SWS-24 (Revised Testimony of Robert L. Kelly) at 12.

¹⁸ See ORA Opening Brief at 5; SWS-64-CX (Suburban's Response to ORA Data Request JA-02, Question 1d).

Public Advocates argues that Suburban has not met its burden of proof in demonstrating that the proposed rates are reasonable. Public Advocates asserts that there is a lack of evidentiary support for the reasonableness of the request, and therefore D.15-10-025 should be relied upon for Public Advocates recommendation of an hourly rate of \$373 per hour¹⁹ for attorney costs.²⁰

We agree with Public Advocates that Suburban has not provided adequate evidence to support an attorney hourly rate of \$775/hr. However, we do not agree based on the information presented that it is reasonable to reduce the rate authorized in Suburban's last GRC of \$616/hr to \$373/hr. We agree with Suburban that a rate of \$373 per hour "is out of step with prevailing market conditions."²¹ We also agree that although the \$616 per hour rate was adopted as part of a settlement, and therefore not precedential, "it is inconceivable that Suburban's authorized legal fees should decline by a third from one GRC to the next" without any support as to why this would be a justified rate.²²

Suburban has provided sufficient evidence to demonstrate that the rates authorized in the last GRC are within a representative range for similar services. Public Advocates argument for reducing Suburban's hourly attorney fees is not supported by its own cited authority. Public Advocates argument regarding awards for intervenor compensation does not support the reduction in fees it advocates for in this proceeding.

¹⁹ Public Advocates recommends a rate of \$373 an hour for outside counsel based on Resolution W-4961 as modified by D.15-10-025 (\$350/hr rate adjusted for inflation).

²⁰ See ORA Opening Brief at 6; Exhibit ORA-01-C (ORA Results of Operations Report) at 59; SWS-65-CX (Suburban's Response to ORA Data Request JA-03, Question, 3c).

²¹ See Suburban Opening Brief at 15.

²² See Suburban Opening Brief at 15.

The requested rate must be within the established range of rates for any given level of experience, and, consistent with the guidelines in D.05-11-031, must take into consideration the rates previously awarded other representatives with comparable training and experience, performing similar services. (Citing to D.08-04-010 at 7-8.)

Suburban has made its case as to maintaining at a minimum the same hourly rate authorized in the last GRC. This rate is consistent with rates awarded to other representatives with comparable training and experience when considering the range of rates provided to intervenors, and the last authorized rate approved by the Commission in Suburban's prior GRC. Suburban has not provided support that its fees should be increased by the amount requested, or that such rates are reasonable. We therefore authorize Suburban to maintain the rates authorized in the last GRC escalated to 2018 dollars as 2018 is the test year.

We also agree with Public Advocates that Suburban has not provided adequate justification to increase its attorney hours from the 545 hours authorized in the last GRC to 815 hours proposed in the current GRC. Public Advocates requested additional information from Suburban documenting hours billed for work performed by attorneys and no such documentation was provided to Public Advocates or presented in the proceeding. The burden is on Suburban to demonstrate why such a significant increase in attorney hours is warranted from the last GRC to the next GRC.

Suburban only provides vague rationale arguing that the amount requested was included in the "detailed budget developed by the selected firm" and "variation is reasonable given the unpredictable nature of Commission

proceedings.”²³ These statements are not enough to justify the increase in hours since the last GRC. Suburban represents that it sought legal services from a new firm with experience representing regulated utilities before the Commission. Suburban also argues that the hourly increase is based on the following: “the level of contentiousness varies from GRC to GRC, depending upon the specific facts and circumstances of the proceeding” and “new issues can be expected to arise from one GRC to another”.²⁴

We agree with Public Advocates that Suburban must provide more than these vagaries in support of such an increase in attorney costs. The same factors referenced by Suburban would surely have been considered by Suburban’s former law firm as well.²⁵ Suburban provides no new or unique information that would warrant an increase in attorney hours from the last GRC. We therefore authorize 545 hours of attorney time at \$616 per hour adjusted for \$2018 (\$653.02 per hour) for a total of \$355,895.90 in legal fees.

Based on the evidence and argument set out in the proceeding record this decision authorizes the regulatory expenses as set forth above. These amounts are as follows: \$355,895.90 for legal expenses; \$71,882 in postage costs for customer notices; and \$6,876 for witness training.

²³ Opening Brief of Suburban filed September 15, 2017 at 21.

²⁴ Reply Brief Public Advocates at 7 citing Suburban Opening Brief at 18 and 19.

²⁵ Reply Brief Public Advocates at 7.

5.2. Transitional Rate Relief and Federal Income Tax Rate – TCJA Impacts²⁶

On December 22, 2017 the Commission Water Division staff directed all Class A and B water and sewer utilities to file Tier 1 advice letters to establish and add a 2018 Tax Accounting Memorandum Account (Tax Memo Account). On December 29, 2017, Suburban complied with the Commission directive and filed Advice Letter 326-W to establish its Tax Memo Account, effective January 1, 2018. The Tax Memo account records all “realized increases or decreases in its CPUC-jurisdictional revenue requirement” resulting from the TCJA.

On January 16, 2018 the parties filed the Joint Motion for Official Notice of Facts. This Joint Motion included information regarding Suburban’s Tax Memo Account and its purpose. The parties stated:

The Memorandum Account is needed to track the impact of the Tax Cuts and Jobs Act (TCJA) on rates currently in effect that were adopted by Decision 14-12-038 in Application 14-02-004 (Suburban’s 2014 GRC) because these rates are based on the previous 35% FIT rate. For example, the Memorandum Account will track the impact of the TCJA on the flowback to customers of excess deferred federal income taxes recorded before enactment of the 21% FIT rate. The Memorandum Account is also needed to track the impact of the TCJA in connection with other non-FIT rate tax-related changes (e.g., elimination of the Domestic Production Activities Deduction, etc.) to the extent the final decision in this proceeding does not accurately reflect those tax changes.²⁷

²⁶ The parties filed a Joint Motion for Notice of Facts on January 16, 2018 (January 16, 2018 Motion) recognizing that the TCJA had gone into effect on January 1, 2018 resolving the majority of the disputed tax issues. On January 3, 2019 Suburban submitted a Motion for Transitional Rate Relief and Modification of Procedural Schedule proposing a mechanism to address outstanding issues as to rate relief including matters concerning Excess Unprotected ADFIT. The parties generally agree on Suburban’s proposal, but for how to address a formula error in the ADFIT presented by Suburban for the first time in its January 16, 2018 Motion.

²⁷ Joint Motion for Official Notice of Facts at 4 fn 9.

Suburban asserts that its Tax Memo Account already exists and therefore its customers are protected from all TCJA impacts.

Suburban proposes mechanisms to address escalation and attrition filings in the GRC decision for this proceeding. As to escalation filings Suburban notes that it would have filed an advice letter implementing revised tariffs with escalation adjustments no later than 45 days before the first day of Escalation Year 2019. If the final decision in this case is adopted on May 16, 2019 Suburban will file its 2018 step rate advice letter, which will also implement this final decision, on June 7, 2019 and Suburban is to timely file the 2019 step rate advice letter on November 15, 2019.

Suburban filed a Request for Interim Rates on September 22, 2017.²⁸ Suburban's request was granted on December 19, 2017 authorizing Suburban to implement interim rates beginning January 1, 2018.²⁹ Suburban also filed Advice Letter 325-W to track its interim rates in its interim rates memorandum account the difference in revenue collections that resulted from delay in the GRC. Suburban proposes that it be permitted to file a Tier 3 advice letter on June 30, 2019 to implement a surcharge to true up interim rates from January 1, 2018 through the date of the implementation of attrition year 2019 rates.³⁰

Suburban notes for the first time in its Motion for Transitional Relief that it found a formula error in the rate base calculation relating to the Interest During

²⁸ Suburban Water Systems Motion for Interim Rate Relief filed September 22, 2017.

²⁹ Administrative Law Judges' Ruling Granting Interim Rates issued December 29, 2017.

³⁰ See Suburban Water Systems' Motion for Transitional Rate Relief and Modification of Procedural Schedule filed on January 3, 2019.

Construction (IDC) component of Accumulated Deferred Federal Income Tax (ADFIT). Suburban asserts that the formula error subtracted rather than added which accumulated IDC-related deferred taxes from rate base.³¹ Suburban asserts that the 2018 pre-TCJA rate base was understated by \$2,965,120. Suburban states that the error will enter into its TCJA impact calculations. Suburban proposes that this formula error be addressed through the 2018 Excess ADFIT Advice Letter which will result in a one-time aggregate surcharge to customers of \$1,186,048.³²

Suburban proposes that the Commission include provisions for TCJA impacts be addressed through advice letters. Suburban proposes to file a Tier 3 advice letter by July 30, 2019 to refund customers the 2018 Excess Protected ADFIT amounts recorded in the Tax Memo Account as a bill credit based on the size of the customer's meter. Suburban also proposes to file Tier 3 advice letters by July 30, 2020 and July 30, 2021 to refund customers as a bill credit the 2019 and 2020 Excess Protected ADFIT. Each refund will be amortized evenly over a period of one year. Each advice letter will include necessary revenue requirement adjustments to rate base caused by the return of the ADFIT balances. Suburban proposes to provide calculations and supporting documentation demonstrating: 1) an estimation of the Excess Protected ADFIT

³¹ See Excerpt from RO Model Showing affected cells, Attachment B to Motion for Transitional Rate Relief. Suburban notes that the RO Model contains an error that requires correction. Correcting this error will avoid confusion when the 2020 step rate change advice letter is filed. The error impacts only the year 2020. Worksheet "Model," cell P6442 is corrected as follows: change from "8.61%" to "7.86%" to reflect the recent reduction in Suburban's rate of return as set forth in D.18-12-002.

³² See Attachment C to Motion for Transitional Rate Relief for calculation.

for each year; 2) how the Excess Protected ADFIT balances were calculated for each year; and 3) the normalization method used.

Suburban also proposes to file a Tier 3 advice letter by July 30, 2019 to refund or charge customers, depending on the balance, all Excess Unprotected ADFIT, amortized evenly over the 24-month period from 2020 to 2021, as a bill credit or charge, based on the size of the customer's meter. The advice letter would include any necessary revenue requirement adjustments to rate base caused by the refund or charge to customers of the ADFIT balances.

Suburban also proposes additional rate adjustments in 2019. Suburban states that it will need to include an adjustment in 2019 as a result of the Commission's decision in the recent cost of capital proceeding. On December 31, 2021, the Commission ordered a reduction in Suburban's cost of capital for January 1, 2019 to December 31, 2021. Suburban asserts that this change cannot be calculated until rate base is determined in the current GRC filing. The impact of the reduced cost of capital would be reflected in the revised GRC rates that will be implemented in the 2018 Step Rate/GRC Implementation Advice Letter proposed to be filed by May 31, 2019. This adjustment will be reflected in the 2019 interim rates.

The settlement submitted by the parties in this GRC requires: 1) one-time customer surcharges for 10 miscellaneous offsets; 2) amortization of the Low Income Ratepayer Assistance Memorandum Account over one-year period; 3) refund to residential customers over a one-year period the WRAM over-collection balance after reduction by projected future WRAM (2017-2020) accruals; and 4) amortization of volume related reserve accounts, over one-year period for Whittier/La Mirada service area and over two-year period for San Jose Hills service area, after adjustment for additional interest. Suburban

proposes that all rate changes be included in the 2018 step advice letter filing proposed for May 31, 2019.

Suburban proposes the following advice letter filings to address step rate increases and the TCJA impacts:

2018 Step Rate/GRC Implementation Advice Letter	5/31/2019
2018/9 Interim Rate True Up Advice Letter	6/30/2019
2018 Excess ADFIT (Tier 3) Advice Letter	7/30/2019
2019 Step Rate Advice Letter	11/15/2019
2019 Excess ADFIT (Tier 3) Advice Letter	7/30/2020
2020 Excess ADFIT (Tier 3) Advice Letter	7/30/2021

Suburban asserts that this is “the most efficient way to ensure that the impacts of the TCJA are resolved in a reasonable manner.”

Public Advocates agrees with Suburban’s proposed timeline for obtaining TCJA and ADFIT information and filing of advice letters. Public Advocates does not agree with Suburban’s proposal for recovery of any excess unprotected ADFIT by a surcharge and requests that the Commission review this issue in Suburban’s next GRC.

Public Advocates in its testimony raises concerns regarding Suburban’s request to recover \$1,407,426 in interest during construction related to ADFIT and increased its revenue requirement.³³ Suburban propose to recover from ratepayers through this GRC the following: 1) a one-time surcharge amount of \$1,186,048; and 2) increase revenue requirement by \$221,378. As discussed above Suburban asserts that it found a formula error in its rate base calculation relating to the IDC component of ADFIT. Suburban also further explains this increase in

³³ Public Advocates Supplemental Testimony on Impacts of Tax Cuts and Jobs Act of 2017 on Suburban Water System’s Revenue Requirement served January 25, 2019 at 7:20-8:5.

an email to Public Advocates dated January 23, 2019 stating that the amount being added to the rate base was not IDC but a consequence of income taxes.³⁴ Public Advocates argues that it cannot verify Suburban's claims without conducting further discovery, and requests that the Commission carefully evaluate this matter before allowing Suburban to recover this additional \$1,407,426 from ratepayers.

Public Advocates concludes that the Commission should use a 21% rate for federal income tax and to remove all forecasted DPAD amounts in order to calculate the federal income tax amount. Additionally, Public Advocates recommends that the Commission order Suburban to record estimated Excess ADFIT amounts of \$8.28 million as a regulatory liability, determine protected and unprotected Excess ADFIT amounts by June 30, 2019, and require Suburban to file a Tier 3 Advice Letter to refund Excess ADFIT amounts to ratepayers. Finally, Public Advocates recommends that the Commission carefully evaluate in the next GRC Suburban's request to recover from ratepayers: 1) a one-time surcharge amount of \$1,186,048 and 2) increasing the revenue requirements by \$221,378.

Suburban argues that the Commission's interest in ensuring an accurate calculation of the excess unprotected ADFIT is the same if the end result is a surcredit or a surcharge, and that if the advice letter process is appropriate for evaluating one it should be for the other. Additionally, Suburban argues that its proposed schedule would allow for Public Advocates to have 60 days to review the ADFIT advice letter, and that this would be sufficient time to access whether

³⁴ See *Id.* at 7:25-8:3 and *Id.* Attachment 3, Suburban's Email Response on January 23, 2019.

the calculations are excessively complicated. Suburban finally argues that General Order (GO) 96-B provides sufficient protections to address any additional review of the calculations if needed.³⁵

We agree that GO 96-B provides sufficient protection to address any additional review needed of the calculations determining whether a surcredit or surcharge should be applied as to the Excess ADFIT. GO 96-B allows for parties to protest the submitted advice letter as well as for the Water Division to reject any advice letter if the matter requires “an evidentiary hearing, or otherwise require review in a formal proceeding...” The Tier 3 advice letter process includes time for parties to provide comment or protest the advice letter prior to a determination by Water Division staff; if approved by Water Division staff a resolution will be presented to the Commission for approval. Public Advocates will have an opportunity to comment on the resolution and to file an application for rehearing if they believe it should be reconsidered.

We agree with Suburban and Public Advocates that the Suburban’s proposal for transitional rate relief as set forth in its January 3rd Motion is the most efficient manner for addressing these outstanding issues. We therefore adopt the mechanisms proposed in Suburban’s January 3 Motion (and described above) concerning: 1) escalation or attrition filings (escalation filings and interim rates); 2) Formula Error related to IDC ADFIT; 3) additional rate adjustments in 2019; and 4) TCJA impacts advice letters (including its proposal for Excess Protected ADFIT and Excess Unprotected ADFIT). In adopting Suburban’s

³⁵ Suburban Water Systems’ Reply to Public Advocates Office’s Response to Motion for Transitional Rate Relief and Modification of Procedural Schedule filed January 25, 2019 at 3-4.

proposal, we make the following adjustment to its proposed advice letter filing timeline:³⁶

Event	Date
2018 Step Rate/GRC Implementation Tier 1 Advice Letter	June 7, 2019
2018/9 Interim Rate True Up Tier 1 Advice Letter	July 8, 2019
2018 Excess ADFIT Tier 3 Advice Letter	July 30, 2019
2019 Step Rate Tier 1 Advice Letter	November 15, 2019
2019 Excess ADFIT Tier 3 Advice Letter	July 30, 2020
2020 Excess ADFIT Tier 3 Advice Letter	July 30, 2021

5.3. Parent Company Cost Allocations – Information Technology Projects

Suburban and Public Advocates disagree as to whether Suburban's proposed IT projects are necessary. Suburban argues that the Commission should authorize an allocated share of \$5.4 million of IT capital projects to be incurred by Suburban's parent, Southwest Water Company (Southwest) to be included in rate base for IT systems used by Suburban. Public Advocates argues the proposed IT projects are unnecessary and should not be authorized by the Commission.

Suburban asserts that the allocated share of the roughly \$5.4 million for IT capital projects to be incurred by Southwest "are needed to ensure continued security, efficiency and reliability of essential IT systems employed by Suburban to serve its customers."³⁷ In accordance with the methodology set forth in the

³⁶ The timeline set forth is premised on a final decision adopted at the Commission's May 16, 2019 Voting Meeting.

³⁷ See Suburban Opening Brief at 30 citing to Exh. SWS-01 (Results of Operations Report), at 8-3, Table 8-1.

Settlement Agreement filed on August 15, 2017, Suburban requests an additional rate base allocation of \$539,851 in test year 2018, and \$1,523,430 in test year 2019.

Testimony submitted by Suburban states that the update will require a coordinated (simultaneous) upgrade to the SAP Enterprise Resource Planning (ERP) system to the most recent commercialized version, as well as implementation of the database platform SAP Business Suite on Hana.³⁸

Suburban proposes to refresh or upgrade several basic hardware and software systems. These upgrades include a refresh of employee personal computers and peripherals, data center storage plus virtualization software, and SouthWest's on-site storage servers. Telecommunications and customer service platform will be upgraded and integrated, and a two-phase customer service software automation enhancement will occur (or has occurred) in 2018 and 2019. Suburban asserts these upgrades, and enhancements will improve customer service processes and security.³⁹

The IT projects proposed here will contribute to consolidation and centralization of SouthWest's IT services. This is part of SouthWest's ongoing strategy for continuing to provide efficient, secure and reliable operations and customer service.⁴⁰ Suburban also points out that the Commission regularly approves recovery of IT capital costs, "recognizing the importance of modern systems to security and efficiency, and the enormous consequential benefits to

³⁸ SWS-17 (Prepared Testimony of Jeff Farney) at 2-8; ORA-10 (Suburban response to data request AMX-01) at 11.

³⁹ SWS-17 (Prepared Testimony of Jeff Farney) at 8-9.

⁴⁰ RT at 200: 5-17; SWS-53-CX (A.11-02-002 Direct Testimony of Raj Morey) at 3-7; SWS-54-CX (A.11-02-002 Rebuttal Testimony of Raj Morey) at 9-10.

ratepayers.”⁴¹ Suburban urges the Commission to approve the request here “to ensure that Suburban customers continue to enjoy the benefits of reliable and secure centralized IT service.”⁴²

Public Advocates argues that the Commission should deny the request for Suburban’s share of the \$5.4 million in IT upgrades. Their argument is premised on four points. First, Suburban does not need the \$5.4 million in upgrades (46.5% would be the responsibility of Suburban ratepayers). Second, they argue that Suburban has mismanaged previous IT upgrade projects “and continues to act imprudently.” Third, SouthWest has not defined the IT upgrades it needs. Fourth, Suburban is being dishonest and may be attempting to collect prior IT costs for the failed Project Cornerstone from ratepayers that did not receive any benefit from the prior proposed Project Cornerstone.⁴³

Public Advocates did not provide sufficient evidence to support these assertions. Public Advocates did not produce evidence that was convincing to counter Suburban’s evidence in support of the IT updates. The evidence submitted did not convincingly support the contention that the IT upgrades were not defined or needed. Nor did Public Advocates provide support for its contention that Suburban acted dishonestly.

We find that Suburban has met its burden in demonstrating that the software upgrades will provide a benefit to ratepayers and that implementing

⁴¹ Suburban Opening Brief at 41 citing to D.16-12-067 at 109-110; D.12-06-016 at 60-64.

⁴² Suburban Opening Brief at 41.

⁴³ Public Advocates opening brief at 14; *also see* ORA-04 and RT Vol. 5 at 301:27-28-302:1

the project is reasonable.⁴⁴ Public Advocates has raised legitimate concerns, however, regarding Suburban's past mismanagement of IT upgrade projects. In order to ensure that ratepayers are only paying for reasonable and prudent costs for the IT upgrades we decline to authorize the amount requested in rate base. We instead authorize a memorandum account for Suburban to track the actual costs of the IT upgrades up to the amounts proposed in its application for Suburban's share consistent with the Parties Settlement. Suburban is to include the information for recorded costs incurred in the next GRC for review. To the extent costs are deemed reasonable in the next GRC Suburban will be able to recover for its share of SouthWest's IT Project in an amount consistent with the reasonableness review finding and not to exceed the estimated amount requested in this GRC.

Suburban has demonstrated that the IT Project is required to provide adequate services and safety of Suburban's electronic systems. The actual cost of the system upgrade can be tracked through the memorandum account to ensure that ratepayers only pay for actual costs of a successfully upgraded system. Establishment of this memorandum account "promotes the safety, health, comfort, and convenience of its patrons, employees, and the public" required by Publ. Util. Code § 451, by enhancing the Utility's ability to 1) track costs of the IT Project; 2) accurately forecast its overall budget needs to support safe and timely upgrades to Suburban's parent company's IT systems; 3) minimize potential

⁴⁴ This decision authorizes Suburban to cover a reasonable share of SouthWest's IT upgrade project consistent with Suburban's allocated percent set out in the Settlement after the Commission conducts a reasonableness review in the next GRC.

budget and operational impacts due to unforeseen costs, by ensuring that the utility only recovers actual reasonable costs for the IT system upgrades.

Moreover, ratepayers would benefit from the utility carefully tracking these costs through a memorandum account and submitting the recorded costs for recovery through the next GRC as this will ensure that recovery will only occur for reasonable costs incurred.

6. Supplement to Application

Suburban submitted Advice Letter 323-W to the Commission's Water Division on September 11, 2017. Advice Letter 323-W set out Suburban's request to amortize the under collections in its purchased water, pump taxes, and purchased power balancing accounts for the period of July 1, 2015 through June 30, 2017. The assigned Administrative Law Judges issued a ruling on September 18, 2019 directing Suburban to withdraw its AL 323-W and serve and file its request as a supplement to this Application. The ruling found that Suburban had ignored the Commission's directive in D.06-04 – 037 by failing to report the status of such balancing accounts in its current GRC filed in January 2017.

Commission D.06-04-037 at ordering paragraph 3 provides the following direction to Class A water utilities:

Class A water utilities shall report on the status of their balancing accounts in their general rate cases and shall propose adjustments to their rates in that context to amortize under-or or over-collections in those accounts subject to reasonableness review. They also may propose such rate adjustments by advice letter at any time that the under-or over-collections in any such account exceeds two percent (2%) of annual revenues for the utility or a ratemaking district of the utility.

Suburban's 45-day update should have reported the expense account balances as of December 31, 2016 pursuant to the rate case plan set out in D.07-05-062.

Suburban did not comply with this directive and instead waited until such time that the balances exceeded the 2% threshold (several months after it filed A.17-01-001) to file AL 323-W. Had Suburban complied with D.06-04-037 (OT no. 3) and D.07-05-062 (Rate Case Plan at A-8) and submitted the balances as of December 31, 2016 for review and adjustment in this GRC, AL 323-W would have been unnecessary. Therefore, the ruling directed Suburban to withdraw AL 323-W and submit a supplement to its application no later than September 21, 2017.⁴⁵

Suburban withdrew AL 323-W on September 20, 2017 and submitted its Supplement to this application on September 21, 2017.⁴⁶ The Supplement included: 1) a report on the status of Suburban's balancing account as of December 31, 2015 and December 31, 2016; and 2) a proposal for adjustments to rates for amortization of under-collection in Suburban's purchased water, pump tax, and purchased power balancing accounts for the period of July 1, 2015 through June 30, 2017 (Supplemental Proposal).

The Supplemental Proposal is set forth as Attachment B⁴⁷ and Attachment C⁴⁸ to Suburban's September 21, 2017 Supplemental filing. Suburban

⁴⁵ Administrative Law Judges' Ruling Vacating August 25, 2017 Evidentiary Hearing and Setting Status Conference issued on September 18, 2017.

⁴⁶ The parties state that the Supplement was filed on September 22, 2017 in their Joint Statement of Suburban Water Systems and the Office of Ratepayer Advocates Regarding Supplement to Application (Joint Statement Re Supplement) at 2, however the official docket of the proceeding shows that the Supplement was timely filed on September 21, 2017.

⁴⁷ Attachment B to the Supplemental Proposal is attached to this decision as Appendix C.

amended its initial request set forth in AL 323-W and the associated revised tariff sheets to include interest for the period of October 1, 2017 through February 28, 2018.⁴⁹ No other changes were made to Suburban's initial request set out in AL 323-W. Suburban also provided workpapers to support its proposal to Public Advocates and the Commission's Water Division.

Suburban and Public Advocates met in September 2017. Public Advocates reviewed the Supplement and workpapers. The Parties, as set forth in the Joint Statement Re Supplement "agree that the Supplement and the requests set forth in the Proposal are reasonable and in the public interest and should be approved by the Commission."⁵⁰

Suburban seeks the following through its Supplemental Proposal:

6.1. San Jose Hills Service Area Adjustment to Tariff Rates as Follows:⁵¹

- Potable Water
 - Tariff Schedule No. SJ-1- Residential Metered Service, and Tariff Schedule No. SJ-2- Non-Residential Metered Service, by assessing a surcharge of \$0.108 per 100 cubic feet of water used to recover a \$2,330,520 under collection including interest over a period of approximately 24 months, commencing March 1, 2018.
- Recycled Water
 - Tariff Schedule No. SJ-3- Recycled Water Metered Service, by assessing a surcharge of \$0.084 per 100 cubic feet of water used to

⁴⁸ Attachment C to the Supplemental Proposal is attached to this decision as Appendix D.

⁴⁹ The Parties note in the Joint Statement Re Supplement that the Supplement incorrectly listed the dates of calculated interest on page 3 as October 11, 2017 to March 1, 2018.

⁵⁰ Joint Statement Re Supplement at 3.

⁵¹ See Appendix C to this decision at B-1 through B-2.

recover a \$66,581 under collection including interest over a period of 24 months, commencing March 1, 2018.

As of June 30, 2017, Suburban served about 42,507 potable water metered customers. The recovery requested in the Supplement Proposal includes the following:⁵²

- An under-collection amount of \$2,304,123 from July 1, 2015 through June 30, 2017.
- A 1.31% franchise fee amount of \$30,184 related to the under-collection request.
- A 0.26% uncollectible amount of \$5,991 related to the under-collection.
- An interest amount of \$18,011 for the months of July 1, 2017 through February 28, 2018.
- An interest amount of \$28,403 for the months of March 1, 2018 through February 29, 2020.
- An overcollection of \$56,192 for previously approved amortization amounts (AL 313-W-A).

As of June 30, 2017, Suburban served about 42 recycled water metered customers. The Supplemental Proposal includes recovery for the following:⁵³

- An under-collection amount of \$65,095 from July 1, 2015 through June 30, 2017.
- A 1.31% franchise fee amount of \$853 related to the under-collection request.
- A 0.26% uncollectible amount of \$169 related to under-collection.

⁵² Information set forth here is taken from Appendix C to this decision.

⁵³ Information set forth here is taken from Appendix C to this decision.

- An interest amount of \$515 for the months of July 1, 2017 through February 28, 2018.
- An interest amount of \$811 for the months of March 1, 2018 through February 29, 2020.
- An under-collection of \$1,259 for previously approved amortization amounts (AL 313-W-A).
- An overcollection of \$2,121 for previously approved amortization amounts (AL 308-W).

The revised tariff sheets (originally submitted with AL 323-W) are attached to this decision as Appendix D.

**6.2. Whittier/La Mirada Service Area Adjustment of
Tariff Schedule as Follows:⁵⁴**

- No. WLM-1- Residential Metered Service, and Tariff Schedule No. WLM-2 Non-Residential Metered Service by assessing a surcharge of \$0.181 per 100 cubic feet of water used in order to recover a \$1,570,930 under collection including interest over a period approximately 12 months, commencing March 1, 2018.

As of June 30, 2017, Suburban served about 33,716 metered customers in its Whittier/La Mirada Service Area. This recovery includes the following:

- An under-collection amount of \$1,506,514 from July 1, 2015 through June 30, 2017.
- A 1.31% franchise fee amount of \$19,735 related to the under-collection request.
- A 0.26% uncollectible amount of \$3,917 related to the under-collection.
- An interest amount of \$12,212 for the months of July 1, 2017 through February 28, 2018.

⁵⁴ See Appendix C to this Decision at B-2 through B-3.

- An interest amount of \$9,995 for the months of March 1, 2018 through February 28, 2019.
- An overcollection of \$12,581 for previously approved amortization amounts (AL 313-W-A).
- An under-collection of \$31,138 for previously approved amortization amounts (AL 308-W).

The revised tariff sheets (originally submitted with AL 323-W) are attached as Appendix D to this decision.

This decision finds that the proposal set forth in Suburban's supplement to this application is reasonable and in the public interest. It is also reasonable, due to the extended time necessary to resolve this proceeding, that the dates of calculated interest and the dates of commencement of interest as shown in Appendix C will be commensurately extended. We therefore adopt the proposal and revised Tariff as set forth in this decision and Appendices B and C to this decision.

7. Joint Motion for Official Notice of Facts

On January 16, 2018 the parties submitted a Joint Motion for Official Notice of Facts. Pursuant to Rule 13.9⁵⁵ the parties request that the Commission take official notice of: 1) the federal TCJA enacted on December 22, 2017; and 2) the TCJA Memorandum Account established by AL 326-W, which Suburban submitted to the Commission on December 29, 2017 in accordance with Water Division direction.⁵⁶

⁵⁵ The parties also listed Sections 451(a) and 452(h) of the California Evidence Code as authority for officially noticing the facts set forth in the January 16, 2018 Joint Motion.

⁵⁶ January 16, 2018 Joint Motion at 1.

The TCJA took effect on January 1, 2018 and established a maximum corporate FIT rate of 21%. Enactment of the TCJA effectively resolved uncertainty concerning the FIT (as discussed above in the section of this decision on Transitional Rate Relief). The TCJA also includes other provisions that impact Suburban's federal tax obligations including elimination of the DPAD.⁵⁷

The January 16, 2018 Joint Motion also summarizes Commission Water Division direction to Class A and B water and sewer utilities to "file Tier 1 advice letters to establish and add a 2018 Tax Accounting Memorandum Account" effective on January 1, 2018. The purpose of the 2018 Tax Accounting Memorandum Account is to track the impact on Commission-jurisdictional revenue requirement caused by changes in business tax rate and other potential tax code changes associated with the TCJA.⁵⁸ Suburban, as noted above, submitted AL 326-W on December 29, 2017, which took effect on January 1, 2018, establishing the required Memorandum Account. Suburban is recording "realized increases or decreases in its CPUC-jurisdictional revenue requirement" resulting from the TCJA.⁵⁹

Rule 13.9 states that "[o]fficial notice may be taken of such matters as may be judicially noticed by the courts of the State of California pursuant to Evidence Code section 450 et seq." As noted by the parties in their motion, Evidence Code 451(a) allows courts to take notice of "[t]he decisional, constitutional, and public

⁵⁷ See P.L 115-97, Subtitle C, Part IV, Section 13305 cited in the parties January 16, 2018 Joint Motion at 3.

⁵⁸ See Rami Kahlon, Director Water Division to All Class A and B Water and Sewer Utilities, December 22, 2017, provide as Attachment A to the January 16, 2018 Joint Motion.

⁵⁹ AL 326-W provided as Attachment B to the January 16, 2018 Joint Motion.

statutory law of this state and of the United States.” The parties also note that Evidence Code section 452(h) authorizes notice of “[f]acts and propositions that are not reasonably subject to dispute and are capable of immediate and accurate determination by resort to sources of reasonably indisputable accuracy.”

The parties request that the Commission take official notice of the 21% corporate FIT rate and other changes to the tax code upon the TCJA going into effect, as well as the Memorandum Account established by Suburban through approval of AL 326-W submitted in accordance with Water Division direction.

All parties to the proceeding joined in the January 16, 2018 Joint Motion, and we find that the request for official notice of the facts set forth in the motion is appropriate. We therefore grant the parties January 16, 2018 Joint Motion and take official notice of the FIT rate and other changes to the tax code resulting from the TCJA, which went into effect on January 1, 2018, as well as Suburban’s Memorandum Account established by AL 326-W.

8. Request for Confidential Treatment

On May 15, 2017⁶⁰ and May 17, 2017⁶¹ Suburban filed Motions for Leave to File Confidential Documents Under Seal pursuant to Rules 11.1 and 11.4⁶² of the

⁶⁰ Revised Prepared Testimony of Walter J. Bench; Prepared Testimony of Jeff Farney, Prepared Testimony of Jocelyn Padilla; Confidential service contracts included with Minimum Data Requirements Volume II; Worksheet 5-1A listing payroll expenses submitted in Workpapers Volume II-A; Invoices related to Special Request – Multiple Miscellaneous Offsets #3 submitted in Workpapers Volume II-B; Project Design Reports for Plant 129 and Plant 408 R-1 Replacements submitted in Workpapers Volume III-A; Asset Management Plans for Control Valve Stations and Reservoirs submitted in Workpapers Volume III-D; Water Main Asset Management Plan and the Geographic Information Systems (GIS) Master Plan submitted in Workpapers Volume III-E; Master Plans for the San Jose Hills System and the Whittier/La Mirada System submitted in Workpapers Volume III-F.

⁶¹ Rebuttal Testimony of Kiki Carlson and Rebuttal Testimony of Jocelyn Padilla.

Commission's Rules of Practice and Procedure, California Evidence Code §1061, California Civil Code § 3426.1, California Penal Code §499(c), Commission General Order 66-C, California Government Code §6254 (ab), and 6 U.S.C. Section 131(3). On September 15, 2017, Public Advocates filed a Motion for Leave to File Confidential Document Under Seal, specifically an un-redacted version of its Opening Brief, for the same reasons given by Suburban.

We agree that the information referenced by Suburban and Public Advocates contain confidential information pursuant to applicable Commission orders and decisions, and federal and state statutes. Therefore, we grant Suburban's and Public Advocates requests for confidential treatment of the referenced documents, pursuant to the terms of the ordering paragraphs herein.

On August 23, 2017, Suburban filed a Statement of Suburban Regarding Confidentiality of Evidentiary Hearing Transcripts. On February 28, 2018, the Assigned Commissioner and ALJs issued a Ruling as to Suburban's May 17, 2017 motion for leave to file confidential documents under seal and a motion to strike made during the July 7, 2017 evidentiary hearings. On March 9, 2018, Suburban filed a Motion to file a Confidential Appendix A to Motion for Reconsideration under seal and a Motion for Reconsideration of February 28, 2018 Ruling. On May 11, 2018, the assigned Commissioner and ALJs issued a ruling granting in part and denying in part Suburban's motion for reconsideration. On May 11, 2018, the assigned ALJs issued an electronic-mail (e-mail) ruling correcting

⁶² Rule 11.4 - (a) A motion for leave to file under seal shall attach a proposed ruling that clearly indicates the relief requested. (b) Responses to motions to file pleadings, or portions of pleading, under seal shall be filed and served within 10 days of the date that the motion was served.

inadvertent service and filing of a ruling that contained a confidential attachment in this proceeding.

Suburban filed a Motion to Submit Revised Confidential Exhibits on May 31, 2018 and served the revised exhibits in accordance with the May 11, 2018 Ruling in this proceeding. Documents designated as confidential in the attached Exhibit List found at Appendix E attached to this decision shall be filed under seal. These confidential documents shall so remain for at least 3 years at which time they will either be made available as public documents or returned to Suburban at its request consistent with the orders issued in this decision.

9. Categorization and Need for Hearing

In Resolution ALJ 176-3391, dated January 19, 2017, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were necessary. The Scoping Memo reiterated this ruling. As hearings were held, we make a final determination herein that hearings were necessary in this proceeding.

10. Comments on Proposed Decision

The proposed decision of ALJ Houck in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 30, 2019 by Suburban and Public Advocates and reply comments were filed on May 6, 2019 by Suburban and Public Advocates.

Rule 14.3 requires that Comments "focus on factual, legal or technical errors in the proposed or alternate decision and in citing such errors shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight." We give no weight to comments that do not

comply with this rule. Editorial changes have been made to the proposed decision to improve clarity and correct typographical and other minor errors. To the extent required, revisions have been incorporated herein to reflect the substance of the comments received.

Revisions to this decision include modification of the Settlement to eliminate the DPAD in determining Suburban's federal income tax liability. The TCJA includes provisions that impact Suburban's federal tax obligations including elimination of the DPAD. Therefore, this provision should not be included in the Settlement or as part of this decision. Both Suburban and Public Advocates agree that it would be contrary to law to maintain this provision as part of the Settlement.

Suburban argues that the decision should be modified to authorize the full amount of Suburban's request for attorney costs for the 2020 GRC. We disagree and find the amount authorized herein is reasonable based on the record. The record does not support the amount requested by Suburban nor does it support Public Advocates request to reduce the amount previously authorized by the Commission. By adopting the prior amount authorized in Suburban's last GRC, we are not relying on the Settlement as precedent as the amount is reasonable based on the record presented by the parties in this proceeding.

Suburban asserts in comments that the PD includes an error in the RO Model which misstates the overall rate increase for 2018 of \$4,864,433 as \$4,925,226 and the percent increase for 2018 of 6.40% as 6.48%. This difference is due to an error in the RO Model (worksheet "Regulatory Cost," cell F17), which shows 2020 GRC Legal Costs as \$537,717 rather than the \$355,896 reflected in the PD. The overall rate and percentage increase numbers noted in the final decision

are correct to be based on the total 2020 GRC attorney costs approved by the Commission.

Public Advocates argues that recovery by Suburban of its request for \$1,185,218 from ratepayers due to an error relating to the IDC component of ADFIT represents impermissible retroactive ratemaking. Suburban is not requesting to collect in rates the higher return from the higher rate base that would have resulted during that time had the error not occurred, neither is Suburban asking to recover those lost returns going forward. This does not constitute retroactive ratemaking. Additionally, as noted by Suburban, this decision is consistent with the Commission's recent decision addressing a similar formula error correction in California American Water Company's GRC in D.18-12-021 at 133-134.⁶³ We note that Public Advocates did not raise the issue of retroactive ratemaking in that proceeding.

Public Advocates argues that the advice letter process is not the proper mechanism to address the IDC ADFIT issue because Public Advocates has raised a disputed issue of material fact. The decision addresses this issue as set forth above, finding that the Tier 3 advice letter process provides sufficient protection for Public Advocates to address any concerns, request additional information, or request a hearing if it believes necessary.

Public Advocates also asserts the PD does not explain why a memorandum account is appropriate for Suburban's IT request. We have made some minor changes to the section of the PD addressing the memorandum account for the IT request to clarify that implementation of the proposed IT

⁶³ Public Advocates did not object to the correction of the formulaic error set out in D.18-12-021.

project upgrades are reasonable based on the record before us. The reasonableness of the cost to be incurred for such upgrades will be determined in the next GRC.

The Commission agrees with Public Advocates that the prior mismanagement of Suburban's previous IT projects raises concerns as to whether similar issues may arise with the proposed IT project authorized in this decision. The Memorandum Account will protect ratepayers. To the extent Suburban acts imprudently or mismanages the IT project it will not receive recovery. The purpose of the memorandum account is to ensure that Suburban provides sufficient evidence in the next GRC as to its prudent actions and appropriate management of the IT project before any recovery occurs.

Suburban's request to upgrade its IT systems, as described in the record of the proceeding, appear to be a reasonable request. However, the burden will be on Suburban in the next GRC to demonstrate the cost incurred for these IT upgrades are reasonable. The decision as modified here does not predetermine the reasonableness of the actual dollar amounts that will be incurred for the IT project, that is an issue to be addressed in the next GRC.

We agree with Suburban that nothing in U-27-W prevents the Commission from establishing a memorandum account for the proposed IT project. Section 53 of U-27-W allows the Commission to establish memorandum accounts, notes that some accounts are established by California law, and articulates the criteria that must be met where a utility requests to establish a memorandum account. Public Advocates cites to the criteria required where the establishment is discretionary on the utility's part. The Standard Practices cited

by Public Advocates are “guidelines” and the Commission has discretion to set up a memorandum account where good cause exists to do so.⁶⁴ Here good cause exists to set up a memorandum account to ensure that a reasonableness review of the costs incurred for the IT project occurs before recovery by Suburban of these costs, given the prior history of mismanagement of such projects.⁶⁵

The memorandum account will allow the Commission to ensure the actual costs incurred are within the authorized budget, within the authorized scope, adequately documented, and otherwise justified and prudent. Public Advocates will have an opportunity to conduct discovery, review documentation of costs incurred, and present evidence and argument as to the reasonableness of such costs incurred in the next GRC.

11. Assignment of Proceeding

Martha Guzman Aceves is the assigned Commissioner and Darcie Houck is the assigned ALJ in this proceeding.

Findings of Fact

1. The record for the Settlement is composed of the application, testimony of the parties and all other filings, including the Settlement.
2. The scoping memo and amended scoping memos for this proceeding define the issues to be determined in this proceeding.
3. The Settlement resolves all but three of the scoping memo issues.
4. As to the remaining issues the parties presented testimony, hearings were held, and the issues were briefed by the parties.

⁶⁴ Go-96-B, Water Industry Rules, Rule 1.10; Standard Practice U-1-W, Article F (Deviating from Standard Practices)

⁶⁵ Suburban did not seek recovery of the prior failed IT project.

5. Each party mutually compromised in reaching the Settlement.
6. The Settlement lessens the burden on ratepayers, in comparison with Suburban's original requested rate increase.
7. The Settlement allows Suburban to provide safe and clean water service in an efficient and cost-effective manner.
8. The parties complied with the provisions of Rule 12 regarding settlements.
9. There are no terms within the Settlement that would bind the Commission in the future or violate existing law.
10. The Parties represent the utility and the ratepayers.
11. The Settlement balances the interests at stake.
12. Settlements serve the public interest by resolving competing concerns in a collaborative and cooperative manner.
13. The Settlement avoids the costs of evidentiary hearings and resources of the Commission, thus saving public funds.
14. The Settlement Agreement requires Suburban to calculate the DPAD based on 9% of Suburban's Qualified Production Activities Income, consistent with Section 199 of the Internal Revenue Code and past Commission practice.
15. The Settlement ensures that customers have continued access to an affordable, safe and reliable water supply system.
16. Suburban has met its burden in demonstrating the following administrative costs are reasonable: \$6,876 for witness training, and \$71,882 for postage to mail notices to ratepayers.
17. Suburban has not met its burden of proof as to its request for attorneys in the amount of \$775/hr for 815 hours.
18. Suburban has not provided new or unique information that warrants an increase in attorney hours from the last GRC.

19. The record supports maintaining Suburban's current attorney rates adjusted for 2018\$ (\$653.02/hr) for a total of 545 hours.

20. On December 22, 2017 the Commission Water Division directed all Class A and B water and sewer utilities to file Tier 1 advice letters to establish and add a 2018 Tax Memo Account, effective January 1, 2018.

21. Suburban's Tax Memo Account records all "realized increases or decreases in its CPUC-jurisdictional revenue requirement" resulting from TCJA.

22. Suburban's proposed mechanisms for addressing escalation and attrition filings is reasonable, efficient, and in the public interest.

23. The schedule for effectuating Suburban's proposed mechanism for addressing escalation and attrition filings should be adjusted as set forth in this decision.

24. Suburban's request for interim rates was granted on September 22, 2017.

25. Suburban filed Advice Letter 325-W to track its interim rates.

26. Suburban asserted in its Motion for Transitional Relief that it found a formula error in the rate base calculation relating to IDC component of ADFIT.

27. Suburban asserts based on the formula error the 2018 pre-TCJA rate base was understated by \$2,965,120.

28. The formula error can be addressed through the 2018 Excess ADFIT Advice Letter.

29. Suburban's allocated share of roughly \$5.4 million for IT capital projects incurred by SouthWest, Suburban's parent company, are needed to ensure continued security, efficiency and reliability of essential IT systems employed by Suburban to serve its customers.

30. It is reasonable to authorize Suburban to incur costs to upgrade and enhance its IT systems.

31. Recovery of IT capital costs are reasonable as such upgrades to modern systems maintain security and efficiency and provide benefits to ratepayers.

32. The IT upgrades will allow Suburban customers to continue to enjoy the benefits of reliable and secure centralized IT service.

33. Suburban has proposed prior major IT upgrades in the past that have failed to be implemented.

34. A memorandum account to track the costs incurred for IT upgrades will ensure that ratepayers are only paying for reasonable and prudent costs for such IT upgrades.

35. Establishment of a memorandum account for IT costs will promote the safety, health, comfort, and convenience of its patrons, employees, and the public as required by Public Utilities Code section 451.

36. The memorandum account will enhance Suburban's ability to 1) track costs of the IT Project; 2) accurately forecast its overall budget needs to support safely and timely upgrade SouthWest's IT systems; and 3) minimize potential budget and operational impacts due to unforeseen costs, by ensuring that the utility only recovers actual reasonable costs for the IT system upgrades.

37. Ratepayers will benefit from the utility carefully tracking IT Project costs through a memorandum account and submitting the recorded costs for recovery through the next GRC.

38. Suburban submitted Advice Letter 323-W to the Commission's Water Division on September 11, 2017.

39. Advice Letter 323-W set forth Suburban's request to amortize the under collection in its purchased water, pump taxes, and purchased power balancing accounts for the period of July 1, 2015 through June 30, 2017.

40. A ruling issued by the assigned ALJs on September 18, 2017 directed Suburban to withdraw Advice Letter 323-W and submit a supplement to A.17-01-001.

41. Suburban submitted a supplement to A.17-01-001 on September 21, 2017.

42. The supplement proposal amended Suburban's initial request set forth in Advice Letter 323-W and associated revised tariff sheets to include interest for the period of October 1, 2017 through February 28, 2018. Due to the extended time needed for resolution of this proceeding, the dates of calculated interest, and the dates of commencement of interest as shown in Appendix C, will be commensurately extended.

43. Suburban's proposal set out in Appendix C and D of this decision is reasonable.

44. The federal Tax Cut and Jobs Act enacted on December 22, 2017 became effective on January 1, 2018, and it is reasonable to take official notice of this fact.

45. Suburban's TCJA Memorandum Account was established by Advice Letter 326-W, which was submitted on December 29, 2017 in accordance with Water Division direction, and it is reasonable to take official notice of this fact.

46. On December 31, 2018, the Commission ordered a reduction in Suburban's cost of capital for January 1, 2019 to December 31, 2021.

47. It is reasonable that the impact of the reduced cost of capital be reflected in the revised GRC rates implemented in the 2018 Step Rate/GRC Implementation Advice Letter filed and reflected in the 2019 interim rates.

Conclusions of Law

1. Suburban is a Class A water company and therefore subject to the jurisdiction of the Commission.

2. Suburban alone bears the burden of proof to show that the requests made in the Application are just and reasonable.
3. The Settlement is reasonable in light of the entire record.
4. The TCJA includes provisions that impact Suburban's federal tax obligations including elimination of the DPAD. The Settlement's term that Suburban calculate the DPAD based on 9% of Suburban's Qualified Production Activities Income is no longer valid due to tax law changes mandated by the TCJA. The Settlement should be modified to eliminate the DPAD when calculating Suburban's federal tax obligations.
5. The Settlement is consistent with the law and Commission decisions.
6. The Settlement is in the public interest.
7. The Settlement attached as Appendix A to this decision should be adopted.
8. Suburban's request for confidential treatment of the Revised Prepared Testimony of Walter J. Bench; Prepared Testimony of Jeff Farney Prepared Testimony of Jocelyn Padilla; Confidential service contracts included with Minimum Data Requirements Volume II; Worksheet 5-1A listing payroll expenses submitted in Workpapers Volume II-A; Invoices related to Special Request – Multiple Miscellaneous Offsets #3 submitted in Workpapers Volume II-B; Project Design Reports for Plant 129 and Plant 408 R-1 Replacements submitted in Workpapers Volume III-A; Asset Management Plans for Control Valve Stations and Reservoirs submitted in Workpapers Volume III-D; Water Main Asset Management Plan and the Geographic Information Systems (GIS) Master Plan submitted in Workpapers Volume III-E; Master Plans for the San Jose Hills System and the Whittier/La Mirada System submitted in Workpapers Volume III-F and Rebuttal Testimony of Kiki Carlson and Rebuttal Testimony of Jocelyn Padilla, should be granted, as detailed herein.

9. Public Advocates request for confidential treatment of its Opening Brief should be granted, as detailed herein.

10. Suburban should be granted a revenue requirement of \$4,925,226 or 6.48% for test year 2018.

11. The post-test year ratemaking mechanism as set forth in the Settlement Agreement is just and reasonable.

12. Suburban should take the necessary actions to comply with the provisions set forth in the Settlement Agreement.

13. Suburban and Public Advocates request to treat selected versions of its testimony as confidential should be granted, as detailed herein.

14. The Commission finds it reasonable to adopt the 21% federal corporate tax rate in accordance with the TCJA.

15. The mechanisms for transitional relief set forth in Suburban's January 3, 2019 motion should be adopted consistent with this decision.

16. The requests set forth in Suburban's Supplemental Application and set out in Appendix C and Appendix D attached to this decision should be adopted. Due to the extended time needed for resolution of this proceeding, the dates of calculated interest, and the dates of commencement of interest as shown in Appendix C, will be commensurately extended.

17. The impact of the reduced cost of capital should be reflected in the revised GRC rates implemented in the 2018 Step Rate/GRC Implementation Advice Letter and reflected in the 2019 interim rates.

18. A memorandum account to record and track actual costs incurred for SouthWest's IT Project should be authorized.

19. Suburban's share of the IT Project costs should be reviewed and, to the extent determined reasonable, approved in Suburban's next GRC.

20. Suburban's witness training expenses should be authorized in the amount of \$6,876.

21. Suburban should be authorized 545 hours of attorney time at \$653.02/hr (\$616/hr escalated to 2018\$).

22. Suburban's request for costs of postage in the amount of \$71,882 for mailing required notices in connection with the 2020 GRC is reasonable.

23. The Commission should take official notice of the TCJA.

24. The Commission should take official notice of Suburban's TCJA Memorandum Account established by AL 326-W, submitted to the Commission on December 29, 2017 in accordance with Water Division direction.

25. All rulings issued by the assigned Commissioner and ALJs should be affirmed herein; and all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJs denied.

26. A.17-01-001 should be closed.

O R D E R

IT IS ORDERED that:

1. The joint motion filed on August 15, 2017, for adoption of the Settlement Agreement is granted exception for Section C set out at pages 20-21. The Settlement Agreement attached to this decision as Attachment A is adopted as modified by this decision eliminating Section C of the Settlement Agreement.

2. All rulings issued by the assigned Commissioner and Administrative Law Judges (ALJs) are affirmed herein; and all motions not specifically addressed herein or previously denied by the assigned Commissioner or ALJs, are denied.

3. Suburban Water Systems shall file the following advice letters to implement rates for this general rate case, which address step rate increases and the Tax Cuts and Jobs Act impacts, consistent with the following schedule:

- a. 2018 Step Rate/General Rate Case Implementation Tier 1 Advice Letter by June 7, 2019;
- b. 2018/9 Interim Rate True Up Tier 1 Advice Letter by July 8, 2019;
- c. 2018 Excess Accumulated deferred federal income tax (ADFIT) Tier 3 Advice Letter by July 30, 2019;
- d. 2019 Step Rate Tier 1 Advice Letter by November 15, 2019;
- e. 2019 Excess ADFIT Tier 3 Advice Letter by July 30, 2020; and
- f. 2020 Excess ADFIT Tier 3 Advice Letter by July 30, 2021.

4. Suburban Water Systems' (Suburban) request to treat as confidential, its Revised Prepared Testimony of Walter J. Bench; Prepared Testimony of Jeff Farney Prepared Testimony of Jocelyn Padilla; Confidential service contracts included with Minimum Data Requirements Volume II; Worksheet 5-1A listing payroll expenses submitted in Workpapers Volume II-A; Invoices related to Special Request – Multiple Miscellaneous Offsets #3 submitted in Workpapers Volume II-B; Project Design Reports for Plant 129 and Plant 408 R-1 Replacements submitted in Workpapers Volume III-A; Asset Management Plans for Control Valve Stations and Reservoirs submitted in Workpapers Volume III-D; Water Main Asset Management Plan and the Geographic Information Systems (GIS) Master Plan submitted in Workpapers Volume III-E; Master Plans for the San Jose Hills System and the Whittier/La Mirada System submitted in Workpapers Volume III-F and Rebuttal Testimony of Kiki Carlson and Rebuttal Testimony of Jocelyn Padilla, is granted consistent with the provisions set forth in the Assigned Commissioner and Administrative Law Judges May 11, 2018

Ruling Granting in Part and Denying in Part Suburban Water Systems Motion for Reconsideration and Confidential Attachment A to the ruling.

5. The documents designated as confidential pursuant to ordering paragraph 4 of this decision shall remain sealed and confidential for a period of three years after the date of this order, and shall not be made accessible or disclosed to anyone other than the Commission staff or on further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Law and Motion Judge, the Chief ALJ, or the Assistant Chief ALJ, or as ordered by a court of competent jurisdiction.

6. If Suburban Water Systems (Suburban) believes that it is necessary for the information deemed confidential pursuant to ordering paragraph 4 above to remain under seal for longer than three years, Suburban may file a new motion stating the justification of further withholding of the information from public inspection. This motion shall be filed at least 30 days before the expiration of this limited protective order.

7. The Public Advocates Office of the Commission's request to treat its Opening Brief as confidential is granted.

8. The opening brief deemed confidential pursuant to ordering paragraph 8 of this decision shall remain sealed and confidential for a period of three years after the date of this order, and shall not be made accessible or disclosed to anyone other than the Commission staff or on further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Law and Motion Judge, the Chief ALJ, or the Assistant Chief ALJ, or as ordered by a court of competent jurisdiction.

9. If the Public Advocates Office of the Commission believes that it is necessary for this information to remain under seal for longer than three years, it

may file a new motion stating the justification of further withholding of the information from public inspection. This motion shall be filed at least 30 days before the expiration of this limited protective order.

10. Suburban Water Systems is authorized to incur witness training costs up to \$6,876 for recovery from ratepayers.

11. Suburban Water Systems is authorized to incur costs for attorney fees in the amount of \$616/hr (escalated to \$653.02/hr in 2018\$) for up to 545 hours.

12. Suburban Water Systems is authorized to incur costs of \$71,882 in postage costs for customer notices.

13. Suburban Water Systems (Suburban) is authorized to set up a memorandum account to record and track costs for SouthWest's IT Project upgrades that may be submitted for review and recovery of reasonable costs incurred in Suburban's next GRC.

14. Suburban Water Systems proposed adjustments to rates for amortization of under-collection in purchased water, pump tax, and purchased power balancing accounts for the period of July 1, 2015 through June 30, 2017 as set forth in Appendix C and Appendix D to this decision is adopted. Due to the extended time needed for resolution of this proceeding, the dates of calculated interest, and the dates of commencement of interest as shown in Appendix C, will be commensurately extended.

15. Official notice is taken of the adoption of the Tax Cuts and Jobs Act which went into effect on January 1, 2018.

16. Official notice is taken of Suburban Water Systems Tax Cuts and Jobs Act Memorandum Account established by AL 326-W, which was submitted to the Commission on December 29, 2017 in accordance with Water Division direction.

17. Application 17-01-001 is closed.

This order is effective today.

Dated _____, at Oxnard, California.